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February 1982

MART

The Retailer's Magazine of Electronics/Appliance Profit Improvement

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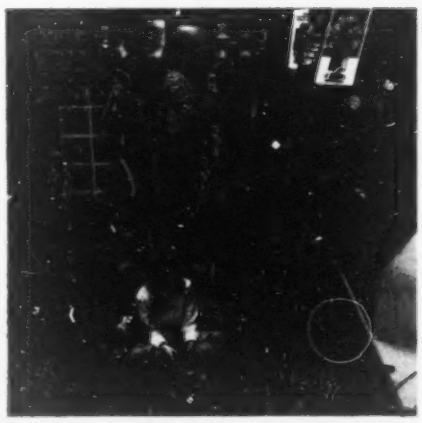
CONSUMER ELECTRONICS



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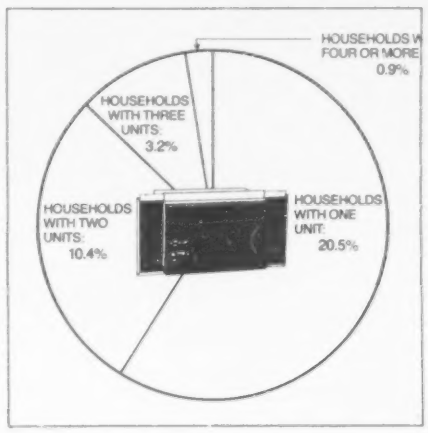

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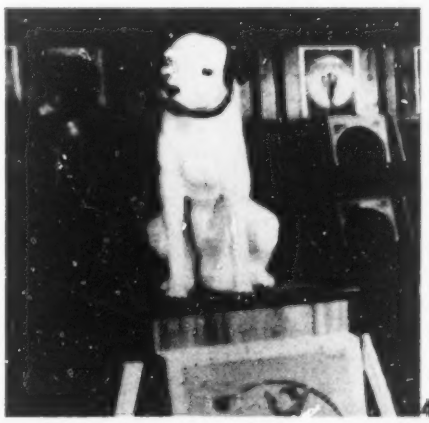

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Cover photograph by Rick Barrick on location at Crazy Eddie's, Carle Place, NY.

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CONSUMER ELECTRONICS

MART
FEBRUARY 1982

About 67,700 CES attendees spent four days in Las Vegas eyeing 1,000 exhibits crammed with the latest products.

Winter CES mood more upbeat than expected

Retailers attending last month's Winter Consumer Electronics Show found a welcome variation of the old "good news-bad news" jokes: this time the news was nearly all good.

First the good news: despite predictions early in December that the recessionary Grinch was going to steal Christmas '81, most stores staged a last-week comeback in sales—at least in electronics categories—that enabled buyers to come to Las Vegas in a better open-to-buy position than many had anticipated only a few weeks before.

Now the rest of the good news: while this CES was not as strong in new-product revolution as some of its predecessors, enough evolution in technology was on view to give retailers a feeling for the direction the market will take this year, especially in the areas of electronic games, telephones, and video products . . . three categories pegged as the hottest contenders for 1982 consumer dollars.

About 67,700 Show attendees crowded in to view the offerings of nearly 1,000 exhibitors, according to CES management, and to hear some upbeat predictions about the future of the consumer electronics industry in general.

Kicking off one of the CES seminars, Panasonic President Ray Gates, chairman of the Electronic Industries Assn.'s Consumer Electronics Group, offered some advice to retailers heading into this new year: keep abreast of product development and merchandising trends, and structure your businesses accordingly.

"Just talking about the fact that our industry is recession- and inflation-resistant won't do us any good," he warned. "We can't rest on our laurels." And, Gates added, "Audio or TV retailers who have broadened their scope in product and market development are doing well—those who haven't may fall by the wayside." ■

Audio firms seek boost from video

CONSUMER ELECTRONICS PERSONALS

Attractive, middle-aged industry seeks young, dynamic live-wire idea or product to add excitement and sex appeal to business attempting to avoid rigor mortis. Interested in renewing vigor, regaining momentum. Marriage with appropriate video prospects neither encouraged nor discouraged. Contact: Any Audio Supplier.

There's nothing like a mid-life crisis to jolt an industry into action. Like their counterparts in the American auto industry who sat, year after year, resting on their laurels, audio suppliers have been at CES after CES offering the same old stuff (SOS)—an interchangeable lineup of compacts and components.

If it weren't for gas lines and Japanese compacts, auto suppliers would still be running their businesses as usual. And if the advent of new video technologies hadn't pulled the rug out from under the audio establishment and crowned video the new king of the hill, audio manufacturers would be producing the SOS too.

But they're not—at least not as much.

For the second CES in a row, audio suppliers' booths last month reflected a new commitment to producing dealer-marketable product, featuring rack systems and stereo-to-go products.

And, they showed a lot more video. Smaller audio manufacturers have been slowly carving specialized niches in the video market—that is, developing videocassette-recorder and video-disc-player lines under their brand names and feeding them to their audio dealers.

[Continued on page 10]

Video-tape rentals key issue at WCES

How video software suppliers should be handling rentals of their products—or, in fact, if they should be handling them at all—became one of the hot topics of discussion during last month's Winter Consumer Electronics Show.

With two new rental programs unveiled very shortly before the Show—a title-a-month plan from MGM/CBS Video and a revision of Warner Home Video's original rental-only proposal—software retailers had a number of different rental options among which to choose.

But many dealers apparently don't like any of the plans, and a group of about 300 of them met during the Winter CES to discuss formation of a national video dealers' association to combat the existing software rental programs.

[Continued on page 11]

Cordless telephones, answerers hot for '82

Although manufacturers of retail telephones and telephone devices were divided in their opinions of exactly what effect last month's settlement in the Justice Dept.'s antitrust suit against AT&T will have on their business, they expressed little doubt that that business will be strong in the coming year.

[Continued on page 10]

Games retailers are playing for hefty profits in '82

With video sales alone projected to hit nearly $2 billion this year, more dealers are playing the game

Electronic games are providing retailers with a lot more than just a pleasant way to wile away a lunch hour these days. Games—both video and hand-held—are expected to be one of the fastest-growing consumer electronics categories this year, with video games and cartridges projected to near the $2-billion mark in retail sales in 1982 and portable games pegged at considerably more than that.

Manufacturers' shipments of game hardware should reach about 3.3 million units this year, suppliers predict, while software unit sales are expected to hit the half-billion mark.

Sales of video-game hardware have been steadily increasing as the products become more sophisticated. And, feeding on the game devotee's insatiable appetite for more challenging game variations, companies supplying game software are working overtime to top themselves creatively and at the same time keep up with the skyrocketing demand.

With the average electronic-game owner playing his (usually) or her game two hours each day, according to manufacturers' estimates, the "razor-blade" potential of the software sale is attracting a number of new retailers to the field.

"We see an annual growth for electronic games of from 10 to 15 percent a year through 1990," declared Richard Hoag, vice president of sales for Mattel Electronics. "This industry is becoming both profitable and predictable, and entertainment is only one facet of its possible applications."

[Continued on page 12]

The market for games like Mattel's Intellivision is booming. Write in 275.

Consumer Electronics

Compete with Ma Bell, not other dealers: Phone-Mate

As telephone volumes hit $5 billion, the retail market's share is growing, says VP Bob Petkun

Want to make an impact on potential telecommunications product customers?

Then instead of trying to compete with price-purchasers, other retailers, or phone-equipment manufacturers, dealers should be training their big advertising and promotional guns on the competitor that undercuts their business most: Ma Bell.

That's the advice of Bob Petkun, marketing and sales vice president of Phone-Mate, Inc. Petkun feels the company that handles a majority of the telecommunications business is a public utility, not an electronics retailer.

"As a manufacturer," he told MART, "my competition is the phone company, and it's the same for retailers. This business is not Montgomery Ward vs. Sears. It's Ward's vs. the phone company, or Sears vs. the phone company. Successful retailers will position themselves against the utility—not necessarily against each other."

According to independent market research initiated by Phone-Mate, telephones and telephone-related products are a $5-billion industry; the retail market accounts for less than 4 percent of that total. But because of upcoming telephone company deregulation and new products, Phone-Mate predicts 1985's retail sales will be in excess of $700 million, rising to $1.6 billion by 1990. Half this growth, according to the company, will be in cordless telephones and answering devices.

"We've done our homework, spending over $200,000 in market research, and talked to 250,000 people to better understand the consumer's feelings about the telephone," Petkun said. "We learned that people love the phone because it lets them reach out, but we also learned that they hate the phone because it rings when they are in the shower, or having dinner, and more often than not, it's a pushy salesman or a wrong number. Plus, people really want to know who's calling."

Phone-Mate is making a concerted effort in the burgeoning consumer side of the industry, which it targets as the fastest-growing segment. Its studies indicate cordless phones as the category likely to experience the strongest growth in the next 10 years, so Phone-Mate has introduced its first cordless telephones.

The RoamPhone cordless phone line includes two "Princess-style" handset/receivers and a speaker phone. Each is compatible with most answering machines and includes the company's patented "Call Screening."

"Because of its design, more than one RoamPhone can be used with one transceiver," Petkun added.

A new answering machine, the IQ 3000, is a programmable system that may record three different outgoing messages (two may be programmed to play at specific intervals), and features Beeperless Remote, which allows system operation via any touch-tone telephone. The idea, according to Petkun, is to provide the consumer and small- or home-office user with a more "personable" approach to answering devices.

Phone-Mate will back its introductions with a $4-million ad campaign in 1982. The company designed the campaign to tie into consumer frustrations with standard phone systems.

"We'll be banging away with the biggest ad budget in the business," said Petkun; the campaign's focus will be on the theme, "The end of the dumb phone . . . We're talking smart." ■

Newswatch

Cybernet International is now handling U.S. distribution for KLH-brand products; the KLH speakers are being manufactured by IKC International . . .

Rubik's Cube has moved to video: Karl Video Corp. introduced a 108-minute video-cassette program on how to solve the cube at the Winter Consumer Electronics Show. The tape is called 'The Cube: Solved' . . .

General Consumer Electronics Corp. is adding two new watch/electronic game combinations, 'Arcade-Time' and 'Sports-Time,' both retailing for under $40. Arcade-Time offers four games, Sports-Time three . . .

A new pre-recorded video tape line premiering at the Winter Consumer Electronics Show, Vestron Video, got underway with 10 titles, including feature films plus 'Richard Pryor Live in Concert' and three music titles . . .

The at-home home entertainment show is slated for the Chicago area April 14-18. The Electronic Home Entertainment Show, to be held at the Arlington Park Race Track Exposition Hall, will run concurrently with the Energy and Home Improvement Fair and will be open to consumers. For information contact Expo Management, Suite 82-132 Arcade, The Apparel Center, Chicago, IL 60654 or call (312) 329-1191 . . .

Fox Marketing plans national distribution this quarter on its entry into the scanner market, a model it says can function as a base, mobile, or portable unit. The 8510 unit went into limited distribution late last year . . .

The new Yamaha consumer ad campaign features musician Chuck Mangione, under the theme, 'Yamaha: for the music in you.' The firm also has a new sales incentive allowance program for dealers, replacing its co-op advertising plan. Jay Eagle, audio sales division manager, said the firm's dealers are very pleased with the program . . .

Audio sales were up 25 percent in 1981, according to President John Moloznik. And of the 70 million calculators produced worldwide last year, the company claims 40 percent of the total production . . .

Media Home Entertainment is offering dealers a new rack system for displaying video tape. The company hopes to sell between 20,000 and 40,000 racks in the first year of distribution; the racks are modular, with each unit holding 48 tapes. Prices are $150 and up, depending on size . . .

Sony plans to add at least three new Betamax models at its spring line showing . . .

Magnavox plans to use a reliability theme in its color TV advertising for at least the next two years, according to Sales Vice President Tim Thomson . . .

Next month MGM/CBS Video will introduce a video cassette of 'Nicholas Nickleby,' the 8½-hour play that recently closed on Broadway. The play is contained on four cassettes and will retail for $300; it will not be available on any other video medium until 1983 . . .

Kind of Video held a special Winter CES showcase sale of tape-recorder and video cassette titles, offering dealers between 5 and 30 percent off regular prices . . .

Universal Security Instruments is offering consumers a free smoke detector with purchases of its $110 Ultrax Home burglar alarm through March 31 . . .

Projected rate of growth (retail):

	$ millions		
	1982	1985	1990
Cordless phones	80	310	720
Telephone-answering machines	140	180	240
Standard phones (non-specialty)	90	80	70
New phone appliances*	–	200	525
Misc.	20	50	75
Total	330	820	1,630

*New telephone appliances are defined as yet-un-marketed products, which combine a telephone with a 100v hook-up.

Source: PMI estimates

Hanimex goes two-step, expands audio, video offering at WCES

Hanimex (USA) Inc., with world headquarters in Sydney, Australia and with worldwide branches, is setting up a two-step distribution system in the United States to sell its consumer electronics line to appliance/television dealers. The company will have about 60 independent distributors. Hanimex, with U.S. headquarters in Elk Grove, IL, has been marketing its consumer electronics products in this country through photo dealers, department stores, and direct-mail companies. (Direct-mail has represented about 50 percent of Hanimex's sales in the U.S so far.)

George Simkowski, Hanimex (USA) executive vice president and chief operating officer, told MART he hopes "to complete the distributor organization very soon."

Introduced at the Winter CES were a number of audio products, including an FM stereo headset at $50, a stereo cassette headset at $100, and what Simkowski believes is the industry's first mini digital clock radio/FM headset, also priced at $100.

The company also unveiled two small-screen black-and-white TV models, a TV/radio combination model with 2-inch screen at $200, and a $250 combo unit with 3-inch screen.

Simkowski said next fall Hanimex plans to introduce a slide-projection system which will permit viewing of the slide on a TV screen. He estimates the suggested retail price of this unit will be under $500.

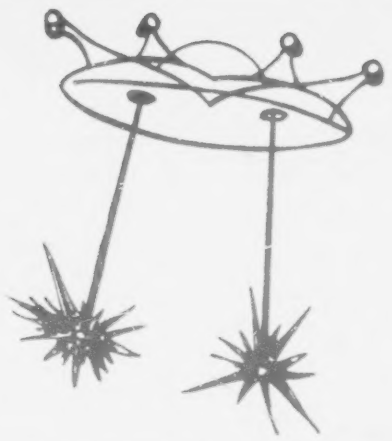
Hanimex has been in the consumer electronics business since 1972.

Hanimex will start limited national consumer advertising in February, with television spots and national magazine ads.

"We have also been experimenting with radio spots and have found radio a strong medium," Simkowski said.

Simkowski also believes keeping the Hanimex name active in the direct-mail field will help to acquaint the consumer with the brand and the product, and help retail sales. ■

Video games and computers add zip to retail profits



[Continued from page 5]

What are some of the other facets? The line between video games and personal computers continues to be blurred, as game suppliers increase their inventory of personal-business and management cartridges, while at the same time manufacturers of home computers add to the supply of games for their units.

Game manufacturers are going off on other tangents, as well. For example, at last month's Winter Consumer Electronics Show Mattel introduced Diet-Trac, a hand-held "personal diet computer system" now being test-marketed at about $50 in Denver and St. Louis, for national availability in the second quarter. The firm has also developed Synsonics Drums, a simulated-drum product that will be out this summer.

Other firms which have been in different facets of the electronic-game market are also beginning to diversify. Coleco, for example, an early entrant into the dedicated video-game market which pulled out when that market started to fade in the face of competition from programmable video games, has been concentrating on hand-held games in recent years. Marketing Vice President Michael Katz reported strong retail reaction at the Winter CES to Pac-Man, a table-top version of the popular arcade game, licensed to Coleco by Midway.

Coleco's new tabletop Pac-Man game offers the action and sounds of the arcade version. Write in 300.

At the same time, Coleco is also getting into production of cartridges for video game consoles: the firm's initial offering will be six cartridges for both the Atari and Mattel game consoles, to be available during the third quarter.

Other companies are also recognizing the potential of the game-software market, estimated to reach about 50 million units in manufacturers' shipments this year.

Activision, a pioneer in video-game cartridges, will see its sales hit about $50 million as its fiscal year ends in March, up from about $5 million the previous year, according to President Jim Levy. At present Activision makes cartridges only for the Atari system, but Levy said he is considering adding games compatible with Mattel's Intellivision as well—"We may have more to say about that in June," he told MART.

A new entry in the game-cartridge field, Imagics, also made its bow with Atari-format games at the Winter CES. President William Grubb indicated the firm feels strategy games will be especially strong this year.

A number of new video-game consoles and/or accessories also were unveiled at last month's show in Las Vegas.

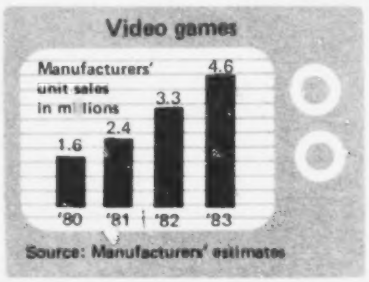
Atari, for example, showed off a new Supergame console incompatible with its current Video Computer System. The new unit, expected to sell in the $300-to-$349 range when it becomes available in a few months, will start with an initial library of about 14 game cartridges, selling for about $30 each.

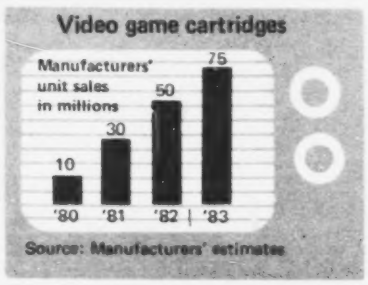
Atari is also bringing out new cartridges of popular arcade games, including Pac-Man and Bersek. The firm plans to offer cartridges for at least three arcade games this year, with more planned for 1983.

Mattel showed off a voice synthesizer for its Intellivision system, called Intellivoice. The company is also expanding test-marketing of the keyboard attachment for Intellivision into three additional markets, Columbus, OH; Atlanta; and Denver, according to Marketing Vice President Bill Gillis.

"These test markets will tell us more about the direction we want to go with the keyboard," Gillis told MART. "We're building toward a national rollout."

Other new game entries at the Winter CES included the Ultimax game from Commodore, a $150 unit with keyboard, joystick control, and about a dozen game cartridges at around $50 each; and a new Video Computer Center with two wired hand controlers from Tryom, manufacturer of the Omar hand-held chess and backgammon games.





MART MONEY MAKER

'The video game does not have to be a seasonal product—a creative retailer can sell both game hardware and peripherals year-round, but it's critical to participate in manufacturer promotions and advertise throughout the year.

'Don't walk away from the video game during the first three quarters of the year assuming it's just a Christmas gift item.'

—Bill Gillis
Marketing VP,
Mattel Electronics

A video game 'boutique' approach boosts sales for Crazy Eddie in the New York City area

'Anyone would have to be pleased with the video-game business!'

That's the view of Ray Navarrete, merchandise manager in charge of electronic games for the 10 New York City-area Crazy Eddie stores. And to make game sales even greater, Crazy Eddie established video-game 'boutiques' in eight of its stores last fall, setting aside a special area in each store for games and software, so customers can come in and get hands-on experience playing the latest in electronic entertainment.

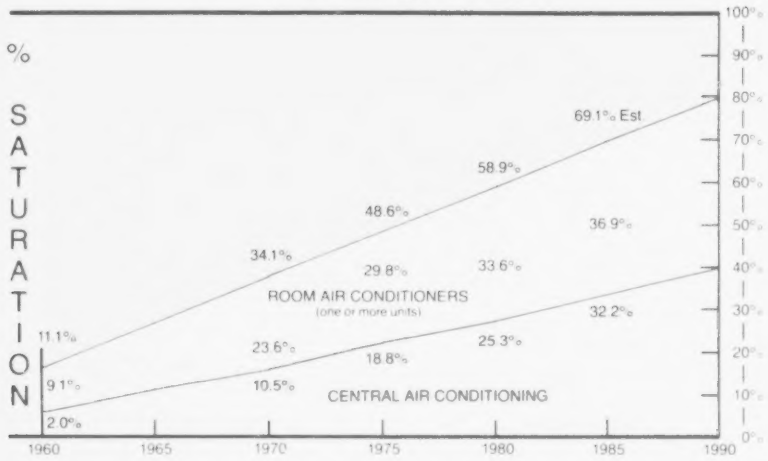
The eight Crazy Eddie stores with the special game boutiques, (such as the one in Carle Place on Long Island shown on our cover), carry four video-game hardware brands: Atari, Mattel, Bally, and Odyssey. In addition, according to Navarrete, 'We carry all the cartridge brands available.'

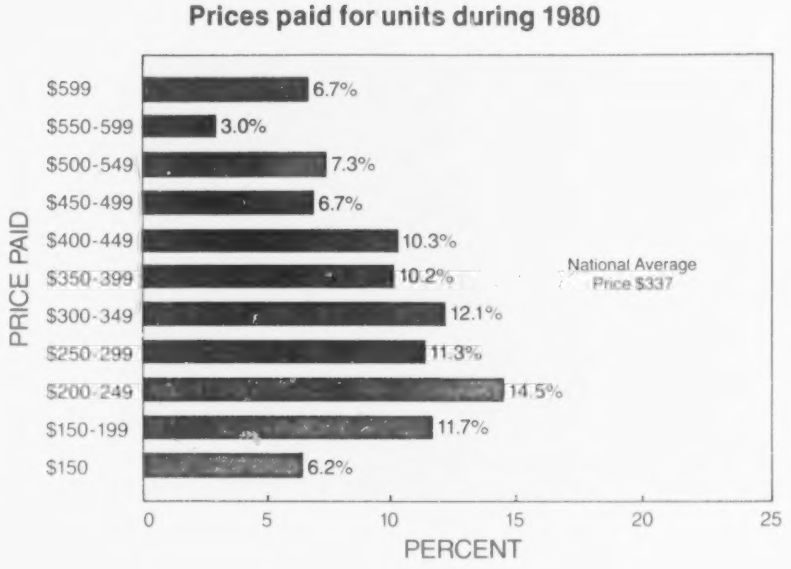
In each store, the game area is located so it can readily be seen as soon as a customer walks in the door. And once that customer has bought a game console, Navarrete told MART, 'We usually sell at least one game with the original console purchase, and then the customer will buy at least a half-dozen, if not more, game cartridges during the first year of ownership.'

While game-hardware sales tend to be seasonal, clustering around the Christmas season, Navarrete said, "the software is a year-round business.' Customers tend to be either parents buying cartridges for their children, or adults (primarily men) buying for their own enjoyment, he added.

Crazy Eddie ran several radio and TV commercials focusing on games during the Christmas season, Navarrete said, and plans to continue promoting the category during the coming year. Advertising hits heavily on price: 'We'll beat any legitimate price customers can get elsewhere that we can verify,' he commented.

Why the boom in electronic-game sales? 'People are staying home more these days, so they're buying more games to stay home with,' Navarrete commented. And what does he see ahead for the category? 'Consumer awareness about video games is still not what it should be, although the recent *Time* magazine cover story on games should help,' he told MART. 'Once potential customers become more aware of what's available, sales should be even stronger.'





Charting the trends in the room-air market

Replacements, second units outnumber first-time sales

The room-air-conditioner market is much more stable than it used to be.

While sales and unit shipments are down from the 5-million-unit years common in the late 1960s and early 1970s, recent sales and shipments have stabilized at between 3 and 4 million units a year.

But despite stability in unit sales, changes are taking place in the market.

The last two seasons have been near-sellouts in the industry, and field inventories are at historically low levels. But because of the high cost of product financing, retailers are showing a reluctance to reorder early in the season; as a result, manufacturers and their distributors have been forced to carry more early-season inventory.

This trend seems to be cutting into pre-season sales activity. Retailers are content with the sales they get when the weather turns hot. The extra promotion needed for a pre-season sale is seen as a lot of effort for perhaps a 10-percent increase in sales.

Retailers are ordering units later than they used to, and in many cases are also ordering fewer units—they don't want expensive inventory left over at the end of the season. They are ordering what they know they can sell, and not a whole lot more.

Manufacturers, for their part, are fearful that in an extended summer heatwave they might not be able to supply units fast enough or in great enough quantities, and shortages could develop.

Other changing trends in the room-air business warrant attention.

With fewer units in the field, it has been easier for manufacturers to institute price increases: industrywide prices are rising faster than they used to. A number of manufacturers announced new price increases in November and December, effective early this year.

With high utility rates becoming even higher in many areas, some evidence exists that consumers are finally purchasing more energy-efficient air conditioners. Manufacturers are offering fewer low-efficiency models than in previous years; most lines are both shorter and more efficient.

As units purchased in the 1960s and early 1970s begin to wear out (and more than 40 million units were sold between 1963 and 1973), retailers can expect an increase in replacement sales. And traditionally, replacement customers step-up to full-featured (higher-priced) units.

In addition to more replacement customers, a growing market of multiple unit families also exists. Of the 35 percent of U.S. families that own at least one room air conditioner, about 40 percent own more than one unit, and the proportion of multiple-unit families is growing.

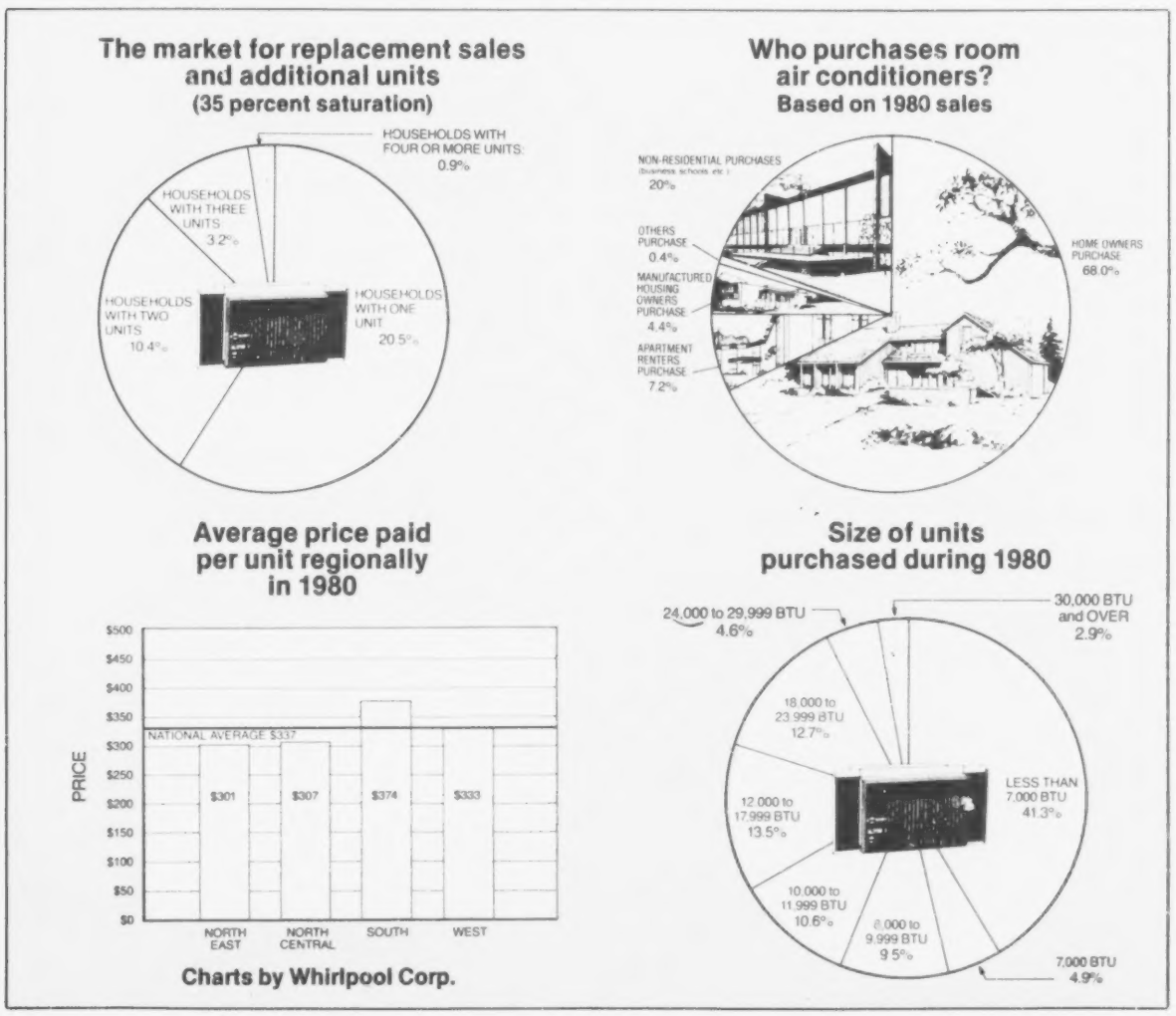
In warmer areas of the country, where central air conditioning is common, a growing number of consumers are turning off their central air conditioning in favor of one or more room air conditioners. This emerging market accounts for an estimated 10 percent of the total room air conditioner market.

What emerges is a market that is shifting, both geographically and in its target consumer. Increasingly, today's room-air-conditioner consumer is a replacement customer or multiple-unit purchaser, someone who has purchased a unit before. The first-time buyer is less frequent than in past years.

And a growing proportion of the market is shifting to the south and sunbelt—areas normally associated with central air conditioning, but that are becoming more and more a factor in the room air-market.

Manufacturers are confident that the 1982 selling season will closely parallel 1981: both years started with a nearly empty distribution pipeline. And the combination of a more dependable replacement market and a growing number of multiple unit families ensure steady business. ■

JOHN FOSTER



MAJOR APPLIANCES

WCI's Chiarucci says appliance future is upbeat

New household formations and a healthier economy should spur sales over the long term

Despite declines in housing starts and spending for consumer durables, there is still room for optimism in the major home-appliance industry over the long term, according to Vincent Chiarucci, executive vice president of White Consolidated Industries, and current board chairman of the Association of Home Appliance Manufacturers.

According to Chiarucci, changing lifestyles will affect both the type and number of appliances sold over the next few years. "As more working wives and single people enter the workforce, there's a corresponding demand for appliances that perform household tasks quickly and conveniently," he said.

That is one reason why microwave ovens continued to show dramatic growth in 1981 despite the economy, and despite the fact that most appliance categories declined.

As the prime rate drops and consumer prices rise slower than in the recent past, Chiarucci said there is room for optimism. "If you couple these positive signs with the current growth in personal savings and the reduction in income tax withholding that's due in mid-1982, a rebound in consumer spending appears to be indicated.

"In the past 20 years, the number of American households has increased from 53 million to 80 million. And one forecast claims that there may be as many as 97 million households by 1990. But at the same time the average size of each household has gone down from 3.3 people in 1960 to 2.78 people in 1980. This is a reflection of the increase in single-person households, estimated to reach 28 percent by 1990, compared with only 7 percent in the late 1940s," he said.

What this means to the appliance industry, according to Chiarucci, is there will be a demand for more appliances but they are likely to be smaller in size. "Obviously, a single person has no need for a family-size refrigerator/freezer when a smaller one will do," he said.

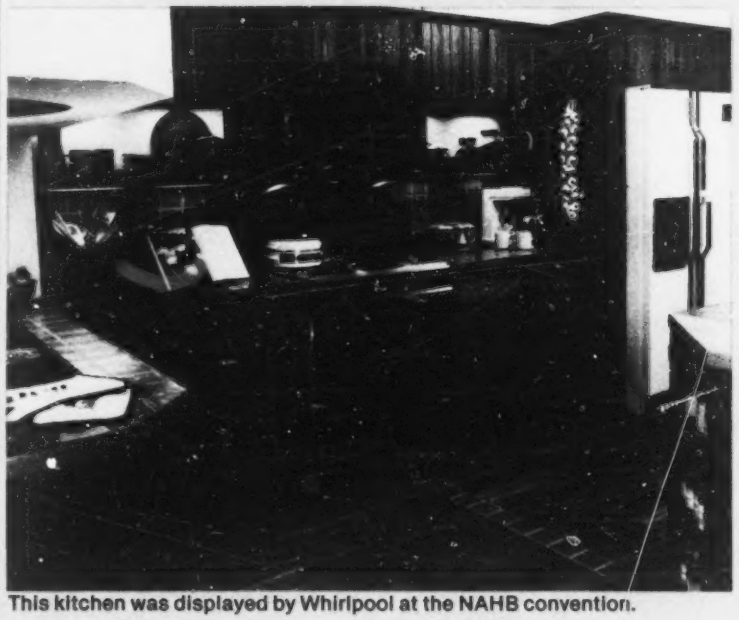
Chiarucci also pointed out that it is the 25-to-34-year-old age group that is the fastest growing segment in the society. These are the people most heavily involved in household formations and raising families.

With the national median age increasing, and with higher average levels of education and disposable income, the replacement market should also grow, he said.

"In 1973, more than 38 million appliances were sold, the best year in industry history. In the past two years, sales were at a rate of 32 million units per year. With sales down, appliances now in use are obviously getting older. This suggests that many appliances will soon be ready for replacement," Ciarucci said.

He also noted today's appliances offer many more features and advantages than those of 20 years ago, and especially important is that today's appliances are much more energy-efficient than those of the past. ■

Manufacturers diversify lines to meet changing life styles



This kitchen was displayed by Whirlpool at the NAHB convention.

The numbers are right—but the economy's wrong.

There will be millions of new households formed in the next 10 years, but few householders will be able to afford new homes.

The American Dream of a house in the suburbs has been scaled down. Even owning an attached home or condominium is fiscally out of the reach of most consumers.

The average size of the American home is shrinking, and proportionally more families live in apartments.

And though the kitchen has not yet been affected by the overall smaller home floorplan, in time, it will be.

The appliance market in the future will be much more fragmented than in the past. Manufacturers will offer specialized products to match the needs of a population that increasingly likes to express its individuality in the products it owns and uses.

Appliance manufacturers introduced many new and innovative products at the recent National Association of Home Builders (NAHB) Convention in Las Vegas. Many of the products are pictured on pages 35 and 36. ■

Majors are still a consumer bargain

According to the Association of Home Appliance Manufacturers, appliances are still one of the best values available to the American consumer.

Today's consumer can "earn" an appliance in fewer hours than was required 20 years ago, thanks to higher wages and the fact that appliance costs haven't kept pace with inflation.

Today the American worker must work about 82 hours to earn enough money to buy a refrigerator compared to more than 153 hours in 1959; 54 hours on the job today will buy a clothes washer, compared to 128 hours in 1959.

Although appliance costs have increased over the years, they have not increased at the same rate as other products and services. According to the August 1981 Consumer Price Index, appliance costs have risen 74.9 percent since 1967, compared to a 176.5 percent increase for all goods and services. In the same period medical costs were up 199.3 percent, food and beverages were up 170.1 percent, transportation costs were up 183.7 percent, and housing costs were up 199.7 percent.

According to AHAM, appliances are an even better value when you consider the improvements manufacturers have made in energy efficiency. While the national average electric rate climbed 47 percent from 1972 to 1980, the average 1981 refrigerator is 58 percent more energy efficient than it was in 1972. Today's freezer is 52 percent more efficient; the average dishwasher is 45 percent more efficient; and the average clothes washer is 58 percent more efficient than in 1972.

Hours to earn figures are based on U.S. Department of Labor, Bureau of Labor Statistics data: Average hourly earnings of production workers in private industry in 1959 was $2.19, in 1980, $7.27. ■

Hours to earn major appliances

	1959 Hours to earn	1980 Hours to earn
Room air conditioners	122.8	17.2
Dehumidifiers	47.0	21.5
Dishwashers	119.3	48.6
Disposers	36.5	13.2
Food freezers	150.2	59.6
Electric ranges	128.8	56.7
Refrigerators	153.4	82.3
Automatic washers	127.9	53.8
Electric dryers	98.2	37.3
Gas dryers	111.4	43.3

Source: Association of Home Appliance Manufacturers